
April 6, 2006



Financial Management

Internal Controls Related to Department of Defense Real Property (D2006-072)

Department of Defense
Office of Inspector General

Constitution of
the United States

A Regular Statement of Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Article I, Section 9

Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit, Audit Followup and Technical Support at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact Audit Followup and Technical Support at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: AFTS Audit Suggestions)
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

DEPARTMENT OF DEFENSE

hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.osd.mil www.dodig.mil/hotline

Acronyms

ACES-RP	Automated Civil Engineers System-Real Property
AIMD	Accounting and Information Management Division
CIP	Construction-in-Progress
DFAS	Defense Finance and Accounting Service
DPAS	Defense Property Accountability System
DUSD(I&E)	Deputy Under Secretary of Defense (Installations and Environment)
FMR	Financial Management Regulation
GAFS-R	General Accounting and Finance System-Rehost
GAO	Government Accountability Office
IFS	Integrated Facilities System
iNFADS	Internet Navy Facilities Assets Data Store
IWIMS	Interim Work Information Management System
NARA	National Archives and Records Administration
NAVFAC	Naval Facilities Engineering Command
OIG	Office of Inspector General
PP&E	Property, Plant, and Equipment
PwC	PricewaterhouseCoopers
RPAO	Real Property Accountable Officer
UFC	Unified Facilities Criteria
USACE	United States Army Corps of Engineers
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

April 6, 2006

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Internal Controls Related to Department of Defense Real Property
(Report No. D-2006-072)

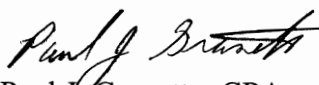
We are providing this report for review and comment. We considered comments from the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer and the Deputy Assistant Secretary of the Navy when preparing the final report.

Comments from the Deputy Under Secretary of Defense (Installations and Environment) and the Assistant Deputy Chief of Staff/Logistics, Installations and Mission Support, U.S. Air Force were received too late to be considered in preparing the final report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, if the Deputy Under Secretary and the Assistant Deputy Chief of Staff do not submit additional comments by May 5, 2006, we will consider the comments received as the response to the final report. We request that the Commander of the U.S. Army Corps of Engineers and the Assistant Chief of Staff for Installation Management, U.S. Army provide comments on Recommendation A.3. and the Assistant Secretary of the Army (Financial Management and Comptroller) provide comments on Recommendation A.4. by May 5, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Barbara A. Sauls at (703) 325-5782 (DSN 221-5782) or Mr. C. Kirk Winstead at (703) 325-3549 (DSN 221-3549). See Appendix E for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Department of Defense Office of Inspector General

Report No. D-2006-072

April 6, 2006

(Project No. D2005-D000FH-0069.000)

Internal Controls Related to Department of Defense Real Property

Executive Summary

Who Should Read This Report and Why? Department of Defense personnel associated with financial management and real property management should read this report. It discusses the internal control procedures necessary to ensure that the Services' real property databases are accurately and promptly updated for additions, deletions, or modifications.

Background. The audit was performed to support the requirements of Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994." DoD reported \$99.5 billion of real property in FY 2005 financial statements. Real property represents 21.6 percent of the DoD \$460.7 billion General Property, Plant, and Equipment line of accounting. Therefore, internal controls related to the accuracy of real property as part of the General Property, Plant, and Equipment line of accounting are critical to achieving accountability and financial control over real property assets.

In 1998 the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) contracted with PricewaterhouseCoopers (PwC) to assist in the valuation of real property. PwC derived a predicted value for historical cost and compared the predicted value with the real property historical cost recorded in the Military Departments' real property databases. To do this, a statistical sample of assets was selected from the databases as of September 30, 1998. The objective was to establish a baseline historical cost value as of September 30, 1998, for each Military Department's real property database. The historical cost values were to be sustained by properly accounting for additions, deletions, and modifications, using adequate supporting documentation. PwC issued a final report on May 15, 2000, which provided certain recommendations that, when implemented, would ensure that the Military Departments could replicate the PwC FY 1998 baseline values and properly maintain the baseline. In conjunction with the PwC review, the DoD Office of Inspector General (OIG) and the Service audit agencies reviewed the databases for additions, deletions, and modifications for FY 1999 and assessed the sustainability of the baseline historical cost values for the September 30, 1998, databases. In Report No. D-2000-172, "Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments' Real Property Databases," August 11, 2000, the auditors reported that the Military Departments' real property databases did not accurately reflect the changes made during FY 1999 because of poor internal controls and noncompliance with applicable regulations.

Results. We performed this audit to determine whether internal controls are in place to provide reasonable assurance that material misstatements relating to real property will not be made on the financial statements. Weaknesses in the control environment and control activities led to deficiencies in the areas of human capital assets, knowledge management, and compliance with policies and procedures related to real property management. As previously reported in Report

No. D-2000-172, real property personnel did not record transactions accurately or timely, retain supporting documentation, perform inventories, or reconcile the construction-in-progress and real property accounts. As a result, the Military Departments' real property databases were inaccurate, thus leading to a lack of internal control over transactions reported in the financial statements. The Deputy Under Secretary of Defense (Installations and Environment) (DUSD[I&E]) should issue guidance to Military Departments requiring that their installation-level commanding officers adequately staff, train, and cross train real property personnel. The DUSD(I&E) should clarify the time period to record real property acquisitions and transfers. For supporting documentation, the DUSD(I&E) should change the Unified Facilities Criteria 1-300-08 to require that all Military Departments use the DD Form 1354 as supporting documentation for construction. The DUSD(I&E) and the USD(C)/CFO should require that the Military Departments retain supporting documentation for real property in accordance with National Archives and Records Administration, and the Secretaries should identify who should retain the documents needed to support the DD Form 1354. In addition, the Military Departments should ensure that the real property personnel perform inventories as required, and DUSD(I&E) should develop policy that requires a reconciliation of the real property assets and construction-in progress accounts. The Military Departments' management control programs were ineffective and did not identify material weaknesses related to the acquisition, modifications, and deletions of real property assets (finding A). See the Finding section of this report for the detailed recommendations.

The Air Force invalidated the 1998 PwC review of valuation and the DoD OIG review of existence and completeness when it implemented a new real property system that did not provide audit trails to the prior year's data that were used to compile information for the financial statement. As a result, the Air Force could not provide documentation of its established real property baseline values for financial reporting and audit. The Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Air Force Deputy Chief of Staff (Installation and Logistics) should determine which fiscal year the real property account values shown in the financial statements can be validated and supported for existence, completeness, and valuation and use that fiscal year as the baseline date (finding B). See the Finding section of this report for the detailed recommendations.

Management Comments and Audit Response. The Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer agreed with the intent of the recommendation. Although management did not specifically concur, the plan of action satisfies the recommendation; therefore, the comments are responsive. The Deputy Assistant Secretary of the Navy concurred with the audit findings, and the comments were responsive. Comments from the Deputy Under Secretary of Defense (Installations and Environment) and the Assistant Deputy Chief of Staff/Logistics, Installations and Mission Support, U.S. Air Force were received too late to be considered in preparing the final report. Therefore, if the Deputy Under Secretary and the Assistant Deputy Chief of Staff do not submit additional comments by May 5, 2006, we will consider the comments received as the response to the final report.

We request that the Commander of the U.S. Army Corps of Engineers; the Assistant Chief of Staff for Installation Management, U.S. Army; and the Assistant Secretary of the Army (Financial Management and Comptroller) provide comments on this report by May 5, 2006. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Managers' Internal Control Program	3
Findings	
A. Military Departments' Real Property Internal Controls	5
B. Air Force Real Property Baseline	19
Appendixes	
A. Scope and Methodology	23
B. Prior Coverage	25
C. Assessment of Implementation of Specific PricewaterhouseCoopers Recommendations	27
D. Synopsis of Real Property Systems	29
E. Report Distribution	35
Management Comments	
Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer	37
The Assistant Secretary of the Navy (Financial Management and Comptroller)	38

Background

The audit was performed to support the requirements of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994.” DoD has approximately 571,900 real property records for buildings, structures, and facilities owned or used, located on 30 million acres of land at 3,740 sites throughout the world. DoD reported \$99.5 billion of real property in the FY 2005 financial statements. Real property represents 21.6 percent of the DoD \$460.7 billion General Property, Plant, and Equipment (PP&E) line of accounting. Therefore, internal controls to accurately report the real property portion of the General PP&E line of accounting are critical to achieving accountability and financial control over real property assets.

The Real Property Baseline. In 1998 the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) contracted with PricewaterhouseCoopers (PwC) to assist in the valuation of real property. PwC derived a predicted value for historical cost and compared the predicted value with the real property historical cost recorded in the Military Departments’ real property databases. To do this, a statistical sample of assets was selected from the databases as of September 30, 1998. The objective was to establish a baseline historical cost value as of September 30, 1998, for each Military Department’s real property database. The historical cost values were to be sustained by properly accounting for additions, deletions, and modifications, using adequate supporting documentation.

Internal Controls Over Real Property Assets. The PwC issued a report on the Real Property Asset Valuation Project dated May 15, 2000, that recommends improving internal controls to ensure that accurate and complete data will be retained for all future real property transactions. PwC also reported that none of the Military Departments maintained a complete record of the actual business rules used or the output files generated to derive the real property financial statement amounts. PwC determined that reporting entities’ misinterpretations of the business rules and errors in applying the rules resulted in inaccurate real property balances reported on the FY 1999 financial statements. PwC recommended the following for the Military Departments.

1. Business rules used to derive real property related financial statement amounts need to be applied correctly and consistently, and an audit trail supporting the financial statement amounts must be maintained.
2. The impact of changes to the business rules in FY 1999 on the population tested in the accuracy test phase should be further evaluated.
3. A detailed real property handbook and training are needed to ensure that Office of the Secretary of Defense (OSD) policies are interpreted correctly and consistently applied. Communication needs to be enhanced.
4. Real property assets and related costs contained in the Working Capital Fund real property systems should agree with those contained in the “primary” systems of the Military Departments, the variety of systems and processes used by the Working Capital Funds should be studied and condensed to the extent possible.

5. Current systems for real property reporting should include all necessary functional requirements.

6. Key controls associated with the real property asset life cycle should be identified and tested. Additional controls should be defined and implemented where needed.

The DoD Office of Inspector General (OIG) and USD(C/CFO) discussed the PwC recommendations from the Real Property Asset Valuation Project with the Military Departments through real property working groups established within each of the Departments. Appendix C provides our assessment of the Military Departments' implementation of specific PwC recommendations. In conjunction with the PwC review, the DoD OIG and the Service audit agencies reviewed the databases for additions, deletions, and modifications for FY 1999 and assessed the sustainability of the baseline historical cost values for the September 30, 1998, databases. In Report No. D-2000-172, "Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments' Real Property Databases," August 11, 2000, the auditors reported that the Military Departments' real property databases did not accurately reflect the changes made during FY 1999 because of poor internal controls and noncompliance with applicable regulations.

Current Real Property Databases. The Army and the Navy were in the process of replacing or enhancing the capabilities of their real property databases. A brief description of the three real property systems follows. More detailed information is provided in Appendix D.

Army. The Army's legacy system, Integrated Facilities System (IFS), a real property management inventory system, is being upgraded to a Web-based system that will interface with the Defense Corporate Database for real property financial reporting. The Defense Corporate Database is a central database that will allow accounting and finance information to be available simultaneously to many users and applications. The Army Audit Agency is monitoring the upgrade to ensure that audit trails will be established and that accurate financial accounting will document real property from acquisition to 10 years after disposal.

Navy. The Navy transitioned its legacy system to a Web-based system in March 2001. The new system provides Naval Facilities Engineering Command (NAVFAC), which is the Navy construction agent, and Navy and Marine Corps operational commands the capability to track and report real property financial and inventory information. Unfortunately, the Navy system, internet Navy Facilities Assets Data Store (iNFADS), is a subsidiary ledger that does not interface with the Navy or Defense financial general ledger systems. Thus, iNFADS relies on manual journal entries, leaving a gap in the automated audit trail. Although the Navy does not have an immediate plan to fill that gap, it does have long-range plans that will provide that interface.

Air Force. Limitations of the former real property reporting system, Interim Work Information Management System (IWIMS), led the Air Force to develop a new real property reporting database in 1999, the Automated Civil Engineer System-Real Property (ACES-RP). The data in IWIMS was migrated into ACES-RP. The ACES-RP is now used to both track and report real property financial data, and it interfaces

with the General Accounting and Finance System-Rehost (GAFS-R). The loss of audit trails relating to the Air Force system is discussed fully in finding B of this report.

Life Cycle of Real Property. The life cycle of constructed real property begins with construction-in-progress (CIP), which is a component of the DoD real property portion of the General PP&E account. Costs incurred during construction of real property assets are recorded as CIP until the real property assets are placed in service. Unified Facilities Criteria (UFC) 1-300-08 provides comprehensive guidance on the management and transfer of real property assets from the construction agent to the real property accountable officer (RPAO). The construction agents, U.S. Army Corps of Engineers (USACE) and NAVFAC, manage the military construction as CIP until the Military Departments at the field-level commands take ownership. The UFC explains how the construction agent is to use the DD Form 1354, "Transfer and Acceptance of Military Real Property," to maintain the CIP account, close out the capitalized property costs from the CIP account upon completion, and then provide the RPAO with a DD Form 1354 with all relevant data 30 days prior to the final inspection. However, the UFC is vague about the next step; it states, "The RPAO is then required to capitalize the asset within a short time afterward and both parties must ensure that the CIP account is reduced by the same amount." This control is designed to ensure that the Military Departments real property assets are not doubled-counted or omitted.

Objectives

Our overall audit objective was to determine whether internal controls related to real property are in place to provide reasonable assurance that material misstatements will not be made on the financial statements. Specifically, we assessed the control environment and control activities related to the acquisition, modifications, and deletions of real property assets. To comply with generally accepted government auditing standards 4.14, "Considering the Results of Previous Audits. . .," we followed up on the findings and recommendations that PwC issued in various reports from FY 1999 through FY 2000. We also reviewed the management control program as it relates to the audit objectives. See Appendix A for a discussion of the scope and methodology and Appendix B for prior audit coverage related to the objectives.

Managers' Internal Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Managers' Internal Control Program. We reviewed the adequacy of the Military Departments' internal controls over accountability for real property and implementation of controls to ensure audit trails are retained when databases are modified to bring the systems into compliance with financial reporting requirements. Specifically, we reviewed the internal controls over the acquisition,

addition, and deletion of real property and the recording of modifications and CIP accounts. We reviewed the Military Departments' FY 2004 Annual Statements of Assurance to determine whether they disclosed the weaknesses in internal controls over the General PP&E real property. We also reviewed management's self-evaluation applicable to those controls.

Adequacy of Internal Controls. We identified material management control weaknesses, as defined by DoD Instruction 5010.40, related to DoD acquisition, addition, and deletion of real property and the recording of modifications and CIP in the database. Details of these weaknesses are reported in finding A of this report with recommended corrective actions. A copy of this report will be sent to the senior official in charge of internal controls for the Office of the Secretary of Defense and the Departments of the Army, the Navy, and the Air Force.

Adequacy of Management's Self-Evaluation. DoD identified the financial reporting of real property as an assessable unit. However, the Navy did not identify material weakness of the financial reporting of real property. The Air Force identified accounting for real property as a material weakness corrected. The Army identified the material weakness of the financial reporting of real property. The inadequacy of the Military Departments' self-evaluation could result in continuing problems in real property accountability. Management's Self-Evaluation is addressed in finding A.

A. Military Departments' Real Property Internal Controls

The three Military Departments had either fully or partially implemented most of the controls recommended by PwC at the headquarters level. However, real property offices at the installation level either did not have or did not implement internal controls to provide reasonable assurance that material misstatements would not be made on future financial statements. Weaknesses in the control environment led to deficiencies in the areas of human capital assets and knowledge management.

- Management did not effectively manage staffing, leaving essential positions vacant for extended periods.
- The Military Departments did not consistently find knowledgeable personnel to effectively perform in various real property-related jobs and did not provide training to ensure that personnel knew how to complete essential tasks.

The control environment contributed to weaknesses in the real property control activities. Real property personnel did not follow policies and procedures, or management had not developed procedures at the installation level to ensure that real property and movement of real property costs from the CIP accounts to the real property accounts were recorded accurately and timely in the property records. In addition, real property personnel did not retain the documentation required to support existence, completeness, and valuation of real property assets. Finally, the Military Departments identified financial reporting of real property in their annual assessment of high-risk areas but did not identify weaknesses in recording the addition, deletion, and modification of real property.

As a result of these internal control weaknesses, the real property data were inaccurate, thus leading to a lack of internal control over transactions reported in the financial statements.

Criteria

Document Retention. National Archives and Records Administration (NARA) General Records Schedule Transmittal No. 8, December 1998, General Records Schedule 3, "Procurement, Supply and Grant Records," Item 1 and General Records Schedule 4, "Property Disposal Records," Item 4 provide criteria for retaining documents accounting for acquisition of real property (by purchase, condemnation, donation, or exchange).

Internal Controls Standards. Government Accountability Office/Accounting and Information Management Division (GAO/AIMD)-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999, provides the overall framework for establishing and maintaining internal control over identifying and addressing major

performance and management challenges. The control environment that management and employees establish and maintain throughout the organization determines the attitude for compliance with policies and procedures. Control activities are the policies and procedures that should effectively and efficiently accomplish the agency's control objectives. The standards emphasize the need for accurate and timely recording of transactions and events, stating:

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Real Property. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (FMR), volume 4, chapter 6, paragraph 060106, requires that documents that support the acquisition of General PP&E assets must be maintained in a readily available location during the applicable retention period, so the information pertaining to the asset, such as the acquisition cost, acquisition date, and cost of improvements, can be validated. Supporting documentation may include purchase invoices, sales and procurement contracts, DD Forms 1354 "Transfer and Acceptance of Military Real Property," Engineering Forms 3013 "Work Order/Completion Report," construction contracts, work orders, and other such documentation generated independently of the entity in possession of the property. Paragraph 060107 requires that DoD Components perform physical inventory of General PP&E real property every 5 years.

Use of DD Form 1354. UFC 1-300-08, "Criteria for Transfer and Acceptance of Military Real Property," June 30, 2004, establishes a process to transfer and accept real property accountability and costs for capital improvement projects in a timely and consistent manner throughout DoD and between Military Departments. UFC 1-300-08 requires the timely and consistent posting of newly constructed and transferred facilities and their costs into the real property database. UFC 1-300-08 recommends that Military Departments use DD Form 1354 to record transfers, changes, additions, or deletions of real property owned by the Military Departments for projects managed by the construction agents and field-level commands.

Military Department Inventory Regulations

Army Regulation 405-45, "Real Property Inventory Management," November 1, 2004, requires that a physical inventory be conducted by the field-level commands at least once every 5 years and that information maintained on file in real property records accurately reflects physical inventory.

NAVFAC P-78, "Navy Facility Assets Procedures Manual," September 30, 2001, requires that inventories be conducted by the field-level commands at least every 3 years.

Air Force Instruction 32-9005, "Real Property Inventory," September 30, 1994, paragraph 5.1, requires a complete physical inventory by the field-level commands of all real property every 5 years.

Internal Control Review

The Military Departments had either fully or partially implemented most of the controls PwC recommended at the headquarters level. PwC recommended that the Military Departments implement business rules and use them correctly and consistently and maintain an audit trail supporting the financial statement amounts. An additional recommendation was that key controls associated with the real property asset life cycle should be identified and tested and, where needed, additional controls should be developed and implemented. See Appendix C for our assessment of how well each Military Department implemented each PwC recommendation. Despite having controls at the headquarters level, the real property offices at the installation level either did not have or did not implement internal controls to provide reasonable assurance that material misstatements would not be made on future financial statements. Weaknesses in the control environment led to deficiencies in the areas of human capital assets and knowledge management. The control environment contributed to weaknesses in the real property control activities.

Control Environment

Human Capital Assets. Management had not designed the work force to provide for contingencies of staff taking time off or vacating positions; therefore, there is no assurance that essential tasks such as updating real property records, performing inventories, and reconciling accounts will be completed. In fact, real property personnel in all three Military Departments indicated the most common reason for not completing inventories and other functions was inadequate staff. Critical real property positions were not fully staffed or were left vacant for extended periods. Of the 13 real property offices visited, 7 were staffed with only 1 individual completing all tasks.¹ GAO/AIMD-00-21.3.1 states,

Effective management of an organization's workforce—its human capital—is essential to achieving results and an important part of internal control. Management should view human capital as an asset rather than a cost. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs.

Army. Positions were not fully staffed or were left vacant for extended periods at three of the four real property offices visited. At one real property office, two realty specialist positions had been vacant for 17 months and 18 months, respectively. At another real property office, a real property accountable officer and a realty specialist were in the process of retiring from Government service. The only person with

¹ Appendix A identifies the four Army, five Navy, one Marine Corps, and three Air Force real property offices visited during our review.

expertise who would be left in the office was a contractor who indicated that he would apply for the jobs when they were announced. As a result, the contractor employee will be responsible for handling the real property office functions until the jobs are filled. At another real property office, a realty clerk with limited real property experience was not sufficiently trained to perform the tasks required by the position.

Navy. At the five Navy offices and one Marine Corps office visited, the real property inventory specialist² positions were staffed. However, at one of the Navy offices there was some confusion and disagreement among peers as to the real property inventory specialist's iNFADS responsibilities. Written guidance consisted of the Navy Facility Assets Procedures Manual, NAVFAC P-78, September 2001, which delineates responsibilities and provides direction to the real property offices about how to fill out the data for iNFADS. The Navy's new organizational structure provides for one position, the real property inventory specialist, to report via the chain of command to the Commanding Officer. All other positions report via the NAVFAC chain of command, which does not include the local Commanding Officer. This reporting structure creates stovepipe positions that the Commanding Officer has little or no authority to use to complete the field-level command mission. At one of the five Navy activities visited, the real property inventory specialist was assigned other duties that precluded her performing iNFADS duties.

Air Force. At two of the three Air Force locations visited, the real property office staff consisted of one position to perform the real property functions. At one office, a real property officer had been appointed within the last 12 months despite limited real property experience. Because the position had been vacant prior to this individual taking over, the workload was backed up and there was no one to provide on-the-job training. As a result, postings of real property assets were delayed. At another real property office, the real property officer's position was being filled. As a result, neither of these two offices completed real property physical inventories.

Knowledge Management. Of the 13 real property offices visited, 6 had not cross trained individuals so that a contingent process could be used to continue business if a position became vacant.

Navy. At some Navy regional commands, personnel were available as back ups in the event of sudden vacancies in real property offices. The Marine Corps staff at Camp Lejeune was cross trained. However, cross training for real property specialists was not observed at four of the five Navy locations visited.

Air Force. Critical Air Force real property positions were not fully staffed or were left vacant for extended periods. In one office, an individual was responsible for the jobs previously performed by three others. Personnel doing the jobs had little or no experience or training in real property procedures or had been trained but without cross training to ensure continuity of operations.

The control environment weaknesses led to inaccuracies in the real property databases and the real property accounts shown in the financial statements. Real

² Term is used to describe Navy personnel primarily responsible for posting data to iNFADS. Individuals who perform similar duties for the Army and Air Force systems are known as realty specialists.

property offices must be adequately staffed and personnel must be properly trained and cross trained to correct these weaknesses.

Control Activities

The control environment contributed to weaknesses in the control activities. Military Departments have not established procedures or procedures were not being followed for the accurate and timely recording of real property. Further, Military Departments did not always have or retain documentation required to support existence, completeness, and valuation. In addition, the Military Departments had neither performed the real property inventories, as required by the FMR, nor reconciled the CIP and real property accounts when the assets were placed in service. These control weaknesses were previously identified in DoD OIG Report No. D-2000-172, August 11, 2000.

Accurate and Timely Recording of Transactions and Events. When resident construction agents provided documentation for the acquisition, modification, or deletion of real property, it was not always accurate and timely. Also costs were not sufficiently broken out on the documentation to provide real property personnel the ability to categorize the cost of various assets in a specific project or to complete timely posting of the assets to the real property database. For example, real property documents may provide a total project cost that consists of a building, a parking lot, and utilities. The real property personnel did not have the information to record these parts separately. Categorizing the costs of assets is important because of the difference in useful lives and depreciation schedules. Policy should be developed to provide consistency in recording real property transactions and categorizing costs.

Military Departments' criteria did not consistently dictate the time allotted for inputting data once the real property office accepted the asset and when the real property office would receive the documentation. The UFC 1-300-08, paragraph 4-1 states,

The Army's Management Controls typically allow the realty specialist 10 days to enter the information from DD Form 1354 into the real property database. The other Services establish their own management controls and timelines to ensure that DoD property plant and equipment does not double-count or under-count real property assets.

The UFC 1-300-08 should be modified to provide consistent timelines for documentation of real property for all Military Departments. More consistency is needed in the criteria for timeliness and providing updated forms. The Military Departments should apply consistent dates (beneficial occupancy date) as to when the asset will be capitalized. In all of the Military Departments, the problems noted involved procedures either not established or not followed.

Army. At all four Army offices visited, internal controls were not adequate for the proper and timely recording of additions, deletions, and modifications to IFS. Army installations did not always record in IFS changes to real property accounts in the same fiscal year that the change occurred. In many instances the USACE contracting agents submitted DD Forms 1354 with inaccurate data, which delayed the processing of the form into IFS by the real property office.

Contracting agents at all four installations failed to submit DD Forms 1354 in a timely manner to the real property offices. At one installation more than 2 years passed before a \$370,676 capital improvement was transferred to the real property office. At another installation, 22 days elapsed before the transfer of a \$223,814 capital improvement. At the third installation it took 53 days to transfer a \$12,552,367 new construction project to the real property office. Finally, at the remaining installation 2 years and 6 months passed between the effective date and the transfer to the real property office of a \$13,242,649 new asset.

None of the four real property offices received notification that disposals had occurred in a timely manner. At two of the real property offices visited, the auditors found source documents that stated that the asset in question had been deleted because it could no longer be found on the military installation. Another office was using aerial photographs of the installation, at 2-year intervals, to document the demolition of assets.

Navy. Based on transactions we reviewed, postings did not appear to be timely at two of the five Navy real property offices visited. At one of the five Navy real property offices, the accuracy and timeliness of iNFADS postings could not be assessed because the Navy did not maintain documentation. At one real property office visited, a 2003 capital improvement was entered in iNFADS with a value of \$5 million, although documentation showed the value should have been \$500,000. The value has since been corrected in iNFADS. Based on our limited review of documentation for Marine Corps transactions, the iNFADS postings were accurate, but it took up to 90 days for transactions to be posted.

Air Force. The Air Force had not developed procedures to ensure real property transactions were recorded accurately and timely. At one real property office, a \$12 million improvement in 2004 was entered as a modification to the original facility acquisition cost using the original acquisition date rather than the improvement's placed-in-service date. As a result, the improvement's net book value was zero with no remaining life at the time of input.

Two Air Force offices had real property transactions funded by military construction that had been accepted by the base civil engineer on a DD Form 1354 but not recorded in ACES-RP in a timely manner. Input of transactions took more than 180 days in some cases.

Two Air Force offices had transactions funded by military construction where beneficial occupancy or physical completion had occurred in accordance with the Beneficial Occupancy Letter or DD Form 1354, although the transactions had not been recorded in ACES-RP. At one real property office, beneficial occupancy occurred in January 2005 and a DD Form 1354 had not been received from USACE as of March 2005. At another real property office, the base civil engineer had signed the DD Form 1354 showing acceptance in October 2004, but as of May 2005 the transaction had not been recorded in ACES-RP.

Real Property Supporting Documentation. Documentation was not adequate to substantiate that all:

- assets were recorded in the inventory records (completeness),

-
- assets were owned by DoD (rights and obligations),
 - inventory records corresponded to an asset (existence), and
 - assets were properly valued (valuation).

This occurred because the Military Departments neither followed procedures noting the potential sources of documents that could be used nor retained the proper documents, if used, to support the inventory records.

Use of Supporting Documentation. From 1998 through 2000, the DoD OIG worked with the Military Departments to develop a memorandum of understanding that would standardize real property documentation processes within DoD. Real property managers in the Military Departments agreed to consider the DD Form 1354 the document of choice to prove acceptance of real property. DD Form 1354 would be used regardless of funding source (for example, military construction or operation and maintenance), and regardless of the construction overseer (either the construction agent or installation engineer). This agreement became written policy when UFC 1-300-08 was issued December 17, 2003. Despite the guidance, neither the Navy nor the Air Force properly used the DD Form 1354 to document projects that were built with nonmilitary construction funding. The UFC 1-300-08 references the FMR, which provides examples of documentation that may be used to substantiate real property costs. Documentation examples are purchase invoices, sales and procurement contracts, Engineering Form 3013, construction contracts, work orders, and other documentation generated independently of the entity in possession of the property to support the real property transactions.

The Army and Air Force real property offices had procedures for documenting real property transactions, but the personnel did not consistently follow them. The Navy was not using the DD Form 1354 in FY 1999 but agreed in FY 2003 to start using it to be consistent with the other Military Departments. To further complicate the process, the Navy does not have standard processes for documenting the turnover of projects from NAVFAC to the receiving organization or for documenting acceptance of an asset. The Navy lacks guidance directing who will provide source documentation and what they will provide to real property inventory specialists to update databases.

Retention of Supporting Documentation. The Army retained supporting documentation; however, the Navy and Air Force real property offices did not retain documentation of those transactions that meet the FMR requirements for retention. Paragraph 060106 also requires that documentation be maintained in a readily available location, during the applicable retention period,³ to permit the validation of information such as the acquisition cost, acquisition date, and cost of improvements pertaining to the asset.

³ Applicable retention period for real property is defined by NARA. For property acquired after December 31, 1920, title papers documenting the acquisition of real property, excluding abstracts or certificates of title, may be disposed of 10 years after the unconditional sale or release by the Government of conditions, restrictions, mortgages, or other liens. Abstracts or certificates of title transferred to purchasers may be disposed of after the unconditional sale or release by the Government of conditions, mortgages, or other liens.

Navy. Although Navy personnel knew they needed to retain documentation to support real property acquisition, modifications, and deletions, they were not always sure what documents should be retained, by whom, or for how long. There was a general lack of consistency in the documentation retained by the Navy, mainly because the Navy had not adopted the use of DD Form 1354 to document the acceptance of real property assets.

Secretary of the Navy Instruction 5212.5D, "Navy and Marine Corps Records Disposition Manual," April 22, 1998, authorizes the disposal of real property valuation records after 6 years and 3 months. This instruction conflicts with the NARA General Records Schedule 3, Item 1, "Real Property Files," which requires that real property documents be retained until 10 years after the disposal of the asset. Although General Records Schedule 3, Item 3, "Routine Procurement Files," provides that contracts and other procurement documents may be disposed of 6 years and 3 months after the final payment, the stricter retention standard provided in Item 1 is applicable to real property. Specifically, real property documentation proving existence and valuation should be established and maintained until 10 years after the disposal of the asset. Clarification is needed to ensure that the Services interpret the NARA guidance as intended, and that personnel updating real property records understand that Military Department guidance may supplement but not replace higher level requirements.

Air Force. At the three Air Force offices visited, supporting documentation was not sufficient or not available for real property transactions entered into ACES-RP for many of the items sampled. One real property office had little or no documentation to support two FY 2003 improvement projects valued at \$1,231,844 and \$2,690,638, respectively. The amounts entered into ACES-RP could not be traced back to sufficient supporting documents supplied by the RPAO.

At two of three offices, disposal documentation was not sufficient or not available in ACES-RP for demolished facilities. At one real property office, we selected a sample of six disposal transactions. The only documentation available for three of the demolished facilities was e-mails stating that two facilities had been demolished. One facility was actually an addition that had been deleted inadvertently by the real property personnel.

Real Property Inventories. The FMR, volume 4, chapter 6, paragraph 060106 provides that general ledger transaction data and supporting subsidiary property records and systems must enable periodic independent verification of the accuracy of the records through physical inventories of PP&E (existence and completeness—"book to floor" and "floor to book"). Physical inventory is an important procedure that helps to provide assurance that recorded data is accurate. When required inventories are not performed, data problems will not be identified or corrected. This situation could ultimately lead to material misstatements being reported in the DoD financial statements. Although procedures existed, managers did not ensure their staffs completed the required real property inventories despite the multiple instances that facilities were inspected for other reasons.

Two Army offices had not conducted full physical inventories of real property assets within the required 5-year cycle. In the Navy, inventories were not being performed within 5-year cycles at three of five real property offices visited. In every instance personnel stated that the reason for not completing inventories was

understaffing. Two of the Navy and the one Marine Corps real property offices visited were accomplishing inventories in a 3-year cycle. In the Air Force, at all three real property offices visited, real property physical inventories were not being performed in accordance with Air Force guidance to ensure that assets in the real property database existed and the database was complete.

Reconciliation of CIP and Real Property Accounts. Procedures were not developed to ensure CIP and real property accounts were updated appropriately after beneficial occupancy. In addition, Army and Air Force users of USACE construction services had not annually reconciled CIP balances in recent years.

The Military Departments did not develop command procedures to ensure the RPAOs or their agents were always included in the acceptance inspection processes. None of the three Military Departments has a method to ensure simultaneous posting of the two accounts. Neither the construction agent nor the RPAO had procedures that ensured the CIP account and the appropriate Standard General Ledger account were updated simultaneously or within 10 days suggested by UFC 1-300-08. The standard procedures do not allow the construction agent to reduce CIP and the RPAO to increase the value of real property simultaneously.

The FMR requires an annual reconciliation; however, none of the Military Departments regularly completed the reconciliation of CIP accounts. DoD 7000.14-R, FMR, volume 4, chapter 6, states that CIP cost amounts are accumulated by USACE or NAVFAC, as applicable, when they are managing and responsible for the construction. The DoD Component that will receive the constructed property must report CIP amounts on its financial statements, regardless of the type of funds used for construction. Such CIP balances must be provided annually by USACE and NAVFAC to the appropriate reporting DoD Component along with supporting documentation in sufficient detail to reconcile the CIP balances by project and funding source. In addition, USACE and NAVFAC must provide any supporting documentation needed for the reconciliation process to the reporting DoD Component upon request. The UFC 1-300-08, developed by the real property managers, restates the FMR requirement that each of the construction agents provide construction balances annually to the appropriate reporting DoD Component along with supporting documentation to reconcile CIP balances by project and funding source. Such a process could provide the Services some assurance that CIP amounts reported on financial statements are correct.

NAVFAC. NAVFAC has developed procedures and is now reporting CIP balances by project and funding source to the Air Force.

USACE. The Air Force organizations who use USACE services did not annually reconcile CIP balances required by FMR volume 4, chapter 6, paragraph 060203, subparagraph B.3. because USACE did not provide CIP balance data. USACE and Defense Finance and Accounting Service (DFAS) automated CIP data, which changed the reporting process. Prior to data automation, USACE tracked and reported each CIP project to the responsible Military Department annually. USACE now provides the information to the DFAS location where the data becomes resident on the DFAS Web page. USACE and DFAS determined that access to the Web page provided a greater accessibility to the information in a real-time environment than sending reports to the Military Departments' Comptrollers. However, this change

was not communicated to the Military Departments' Comptrollers. As a result, Air Force did not obtain the information needed to perform the reconciliations.

Managers' Assessment of Internal Controls

The DoD assessment of internal controls identified financial reporting of real property management as a high-risk area. However, the Military Departments' control programs were ineffective and did not identify material weaknesses related to the acquisition of real property assets, modifications, and deletions of DoD real property.

Army. Army's real property database, IFS, does not allow for depreciation, and subsequent entries in dollar values override previous dollar values with no audit trail of real property transactions. In addition, data mismatches and negative numbers from IFS were not allowed in the Defense Property Accountability System (DPAS) and resulted in dollar values being overridden and audit trails being lost. The Army recognized that the attempted solution of DPAS interface with IFS did not work for real property financial reporting; thus, they identified financial reporting of real property as a material weakness. The Army discontinued the DPAS interface and modified IFS to calculate depreciation and run financial reports directly from each site. The material weakness will be corrected when IFS is able to calculate depreciated values for real property, provide an audit trail of all real property transactions, and interface with the DFAS Corporate Database. However, the Army did not identify any weaknesses in recording the addition, deletion, and modification of real property and did not fully disclose the deficiencies on its financial statements.

Navy. The Navy did not identify financial reporting of real property as a material weakness. Also, the Navy did not identify a weakness in recording the addition, deletion, and modification of real property. The Navy has failed to address the internal controls related to real property.

Air Force. The Air Force identified accounting for real property as a material weakness corrected. Although the Air Force implemented the ACES-RP to improve internal controls over accounting for real property, Air Force management needs to develop a plan to prove existence, completeness, and valuation of Air Force real property assets and continue to improve internal controls over recording real property transactions.

The Military Departments are required to report the results of their evaluation of internal controls to the Office of Secretary of Defense. We attribute the weaknesses in the reporting of real property to inadequate assessments of internal controls.

Impact on the Financial Statements

Weak control environment and control activities related to DoD real property acquisition, additions, and deletions led to deficiencies causing inaccurate real property databases. These inaccuracies consisted of acquired property not recorded in the database, deleted properties not removed from the database, and modifications to

property not recorded in the databases. In addition, the lack of supporting documentation led to unsupported values for the real property that was included in the databases. As a result of the weak control environment and control activities, the real property databases were inaccurate, thus leading to a lack of internal control over transactions reported in the PP&E account.

Conclusion

A weak control environment related to DoD real property acquisition, additions, and deletions led to deficiencies in the areas of human capital assets and knowledge management. The control environment contributed to weaknesses in the real property control activities. As a result, the Military Departments do not have procedures or did not follow existing procedures to ensure the following.

- Management will fully staff vacated real property positions or that positions will not be left vacant for extended periods.
- Personnel are trained and cross trained to allow for contingencies.
- Real property records will be maintained accurately and timely.
- Engineering, contractor, and RPAO (or his or her agent) will acquire, accept, and inspect real property in a cooperative process.
- Documentation provided to the real property office will be adequate to prove value, existence, and completeness of real property assets.
- The Navy and Marine Corps will use DD Form 1354.
- The Navy and Air Force will use DD Form 1354 for construction projects funded with other than military construction funds.
- Engineering and real property personnel will coordinate updating data so that CIP accounts are simultaneously reduced when beneficial occupancy occurs.
- USACE will communicate to all components how to access CIP data so that reconciliations can be performed.

The same weaknesses identified during this audit were identified and reported in DoD OIG Report No. D-2000-172, August 11, 2000 and Service audit agency reports.

Recommendations, Management Comments, and Audit Response

Management Comments Received Late. Comments from the Deputy Under Secretary of Defense (Installations and Environment) and the Assistant Deputy Chief of Staff/Logistics, Installations and Mission Support, U.S. Air Force were received too late to be considered in preparing the final report. If the Deputy Under Secretary and the Assistant Deputy Chief of Staff do not submit additional comments by May 5, 2006, we will consider the comments received as the response to the final report.

A.1. We recommend that the Deputy Under Secretary of Defense (Installations and Environment) require Military Departments to:

a. Staff their real property offices with an adequate number of skilled personnel to perform the essential real property tasks required by regulations.

b. Provide necessary training and cross training so that real property functions can be worked in a timely manner.

c. Develop procedures that will standardize the process for recording real property acquisitions, deletions, and modifications for the Military Departments.

d. Use the DD Form 1354 as suggested by Unified Facilities Criteria 1-300-08 for acceptance of all construction projects yielding capital assets, and that cost should be fully documented on this form with supporting documentation retained.

e. Develop policy that requires a reconciliation of the real property assets and construction-in-progress accounts.

A.2. We recommend the Deputy Under Secretary of Defense (Installations and Environment) and the Under Secretary of Defense (Comptroller)/Chief Financial Officer issue policy that will require Military Departments to retain supporting documentation for real property in accordance with National Archives and Records Administration, and the Secretaries should clarify who should retain the documents needed to support the DD Form 1354.

Management Comments. The Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer agreed with the intent of the recommendation to issue policy on document retention in accordance with the NARA, and to clarify policy about who should retain documents to support the amounts reported on the DD Form 1354. The Deputy Chief Financial Officer stated that they will work with the installation and logistics community to develop an approach to incorporate the NARA requirement into its policy guidance and to develop rules about who should retain the documentation to support the DD Form 1354.

Audit Response. The Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer agreed with the intent of the recommendation. Although management did not specifically concur, the plan of action satisfies the recommendation, and therefore, the comments are responsive.

A.3. We recommend that the Commander of the U.S. Army Corps of Engineers; the Commander of the Naval Facilities Engineering Command; the Assistant Chief of Staff for Installation Management, U.S. Army; and the Deputy Chief of Staff, Installations and Logistics, U.S. Air Force:

a. Provide oversight to resident engineers on Military installations so that the resident engineers will provide timely interim and final DD Forms 1354 that are accurate and with cost sufficiently broken out to enable the real property office personnel to properly value assets.

Naval Facilities Engineering Command Comments. The Naval Facilities Engineering Command concurred, and stated that guidance for the use and preparation of the DD Form 1354 was issued in August 2005. The guidance clarifies the roles and responsibilities for completing the draft, interim, and final versions of the form, and

ensures that construction costs are properly accounted for as they are transferred to clients. The NAVFAC staff will monitor the implementation and use of the form during FY 2006 to ensure that it is properly implemented.

b. Provide oversight to resident engineers on Military installations so that the Real Property Accountable Officer or his or her agent is included in the inspection and acceptance on beneficial occupancy date.

Naval Facilities Engineering Command Comments. The Naval Facilities Engineering Command concurred, and stated that if the guidance issued in August 2005 is properly implemented, the RPAO should be included in the inspection and acceptance on the beneficial occupancy date. The NAVFAC staff will monitor the implementation of the guidance during FY 2006 to ensure that it is properly implemented.

c. Provide a defined timeline and procedure for engineering personnel to notify comptroller and real property personnel that beneficial occupancy has occurred and will result in construction-in-progress assets being reduced simultaneously when real property assets are increased; or develop automated procedures that will result in simultaneous posting.

Naval Facilities Engineering Command Comments. The Naval Facilities Engineering Command concurred, and stated that the guidance issued in August 2005 should ensure that the RPAO is notified of the beneficial occupancy date. NAVFAC staff established an automated procedure that provides an e-mail to the RPAO when 95 percent of the project is complete. A review of the construction-in-progress process is currently being undertaken, and is to be completed by June 30, 2006.

d. Ensure that the real property personnel perform inventories as required.

Naval Facilities Engineering Command Comments. The Naval Facilities Engineering Command concurred, and stated that there is a milestone to develop an approach to performing and documenting real property inventories that meets the requirement of the DoD Real Property Inventory and Reporting. The milestone is to be completed by March 29, 2007.

Management Comments Required. The Commander of the U.S. Army Corps of Engineers and the Assistant Chief of Staff for Installation Management, U.S. Army did not comment on the recommendation. We request that the Commander and the Assistant Chief of Staff provide comments on the recommendation by May 5, 2006.

A.4. We recommend that the Assistant Secretaries of Army, Navy, and Air Force (Financial Management and Comptroller) report the material weaknesses identified in finding A of this report in their annual statement of assurance until the weaknesses are corrected.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments. The Assistant Secretary of the Navy (Financial Management and Comptroller) concurred. The Deputy Assistant Secretary of the Navy stated that they

will evaluate real property controls in accordance with OMB Circular A-123 as they develop this year's Departmental Statement of Assurance and make the determination whether it should be included as a material weakness.

Management Comments Required. The Assistant Secretary of the Army (Financial Management and Comptroller) did not comment on the recommendation. We request that the Assistant Secretary of the Army provide comments on the recommendation by May 5, 2006.

B. Air Force Real Property Baseline

In 1999 when the Air Force populated its new real property database, ACES-RP, it did not retain an audit trail to the 1998 database information that supported the PWC valuation validation. Furthermore, from 1999 through 2001, the Air Force did not retain audit trails from its new ACES-RP database to the amounts reported in the Air Force financial statements. The processes used by the Air Force during development of ACES-RP did not provide audit trails to the 1998 validation of existence and completeness of real property. Further, because the Air Force did not retain hard copy documentation that provided adequate audit trails to the financial statements, the Air Force has a gap in its financial statement data. As a result, the Air Force has no established baseline value for purposes of financial reporting and audit. Further, the Air Force has not validated the existence, completeness, or valuation of its real property data assets in the new database.

Criteria

Population of Databases. GAO/AIMD-00-21.3.1, “Standards for Internal Control in the Federal Government,” November 1999, application system development and maintenance control provides the structure for safely developing new systems and modifying existing systems. Included in these general controls are documentation requirements; authorizations for undertaking projects; and reviews, testing, and approvals of development and modification activities before placing systems into operation.

Audit Trails. FMR, volume 1, chapter 2, subparagraph 020207 (I), is about system processing characteristics, and states: “Audit trails to the original documents and transactions shall be established and maintained.”

Volume 1, chapter 3 of the FMR prescribes procedures for determining whether its provisions are met by DoD accounting systems. Specifically the procedures test whether the systems are designed, documented, and operated in compliance with this Regulation. The chapter 3 addendum lists key requirements for accounting systems, and Number 8, “Audit Trails,” states the following:

Audit trails permit tracing transactions through a system. Audit trails allow auditors or evaluators to ensure transactions are properly accumulated and correctly classified, coded and recorded in all affected accounts. Audit trails should allow a transaction to be traced from initiation through processing to final reports. In addition, good audit trails allow for the detection and tracing of rejected or suspended transactions, such as unmatched disbursements, for ultimate systematic correction in a reasonable timeframe.

A fundamental requirement for any compliant accounting system is that the financial transactions for which the system must account be adequately supported with pertinent documents and source records. All transactions, including those which are computer-generated and computer-processed, must be traceable to individual source records. Audit trails enable the tracing or

replicating of a transaction from its source to the resulting record or report, and from the resulting record or report to the source. Items in source records necessary for audit-trail purposes include transaction type, record or account involved, amount, processing references, and identification of the preparer and approver of the transaction. A key test of the adequacy of an audit trail is whether tracing the transaction forward from the source or back from the result will permit verification of the amount recorded or reported.

Population of the Real Property Database

Because of limitations in the former real property financial reporting system, IWIMS, the Air Force implemented a new real property reporting database in 1999, the ACES-RP. The real property data in IWIMS was migrated into ACES-RP; however, the Air Force did not retain an audit trail to the 1998 database information that supported the PwC valuation validation. Furthermore, from 1999 through 2001, the Air Force failed to retain audit trails from its new ACES-RP database to the amounts reported in the Air Force financial statements. The Air Force's decision to change its real property reporting system in 1999 and its failure to retain the trial balances and source databases resulted in a loss of transaction histories necessary to support the FY 1998 real property baseline and FY 1999 financial statements. To compensate for the lack of an audit trail, PwC used data from the Air Force Real Estate Agency inventory system, which accounts for the use of facilities and facility area amounts. PwC determined late in its review that this system did not have the necessary data to fully support its review. PwC recommended that an audit trail supporting the financial statement amounts be maintained.

Audit Trails from the Old to the New System

The Air Force used processes during development of ACES-RP that did not provide audit trails to the 1998 values. Further, because the Air Force did not retain hard copy documentation that provided adequate audit trails to the financial statements, a gap was created in the Air Force financial statement data. Systems personnel at Gunter Air Force Base stated the implementation program had technical problems when it converted records from the old system format to the new ACES-RP format. The new format contains new or converted data fields not contained in the old database. For example, SERVICE_DT became Date Placed in Service and COST_BASIS became Acquisition Cost. The systems personnel explained that because the two systems do not have comparable formats, the Air Force is unable to apply the current system values back to the 1998 baseline values. The Air Force did not retain the old source database; thus, the ACES-RP database administrators are unable to go back to the old data. Further, the old system was primarily manual. Personnel cannot find the documentation that supports the 1999 through 2001 manual process, which creates a larger gap.

Baseline Value for Financial Reporting

The Air Force has no established baseline value for purposes of financial reporting and audit. Further, the Air Force has not validated the existence, completeness, or valuation

of its real property data assets in the new database. Air Force system personnel stated that it is cost prohibitive to reperform the process of deriving the FY 1998 baseline. Nor is it practical to reproduce the data for the years 1999 through 2001 needed to support the financial statement balances. However, the FMR clearly requires, and PwC recommendations from FY 2000 specify, that audit trails supporting financial statement amounts must be maintained. The Standard Systems Group that manages the Air Force real property system stated that although they cannot recreate prior years' data, the ACES-RP system became fully operational in FY 2002; it can provide an audit trail and any information required for additions and deletions to the real property inventory from FY 2002 forward. The Air Force needs to develop a new real property baseline that can be validated for existence, completeness, and valuation and it needs to maintain an audit trail to support the financial statements.

Conclusion

The Air Force not retaining transaction histories in the development of the new system caused it to lose the ability to calculate additions and deletions made to the real property data through at least FY 2001. Because of the lack of audit trails, the Air Force has no validated baseline up to the present. Furthermore, the Air Force cannot ensure that its database contains complete and accurate data, and the database needs to be validated for existence, completeness, and valuation. The Army and the Navy maintained audit trails sufficiently to support their Department baselines for real property; however, the lack of an Air Force baseline could delay any plans for DoD to assert the correctness of its financial statements with any reasonable expectation of obtaining a favorable audit opinion.

Recommendations

Management Comments Received Late. Comments from the Assistant Deputy Chief of Staff/Logistics, Installations and Mission Support, U.S. Air Force were received too late to be considered in preparing the final report. If the Assistant Deputy Chief of Staff does not submit additional comments by May 5, 2006, we will consider the comments received as the response to the final report.

B.1. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Air Force Deputy Chief of Staff (Installation and Logistics):

a. Determine which fiscal year they can prove for existence, completeness, and valuation and use that fiscal year as their baseline for real property.

b. Maintain an audit trail that will support the real property values reported on the financial statements.

B.2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) report the material weaknesses identified in finding B of this report in their annual statement of assurance until the weaknesses are corrected.

Appendix A. Scope and Methodology

Our objective was to determine whether internal controls provide reasonable assurance that material misstatements will not be made on the financial statements. Specifically, we assessed the control environment and control activities related to the acquisition, modifications, and deletions of real property assets. To accomplish these objectives, we reviewed and charted the flow of data from the real property data systems to the financial reporting system. (See Appendix D.) In addition, we followed up on recommendations made in the 1999 PricewaterhouseCoopers report, “DoD Real Property Asset Valuation, Phase IV, Real Property Financial Statement Reporting Process,” May 15, 2000. (See Appendix C.) The DoD 2005 financial statements reported \$99.5 billion in real property assets. That total includes land at \$10.5 billion; buildings, structures, and facilities at \$68.6 billion; leasehold improvements at \$176.5 million; and construction-in-progress at \$20.3 billion.

Scope Limitations. We performed this audit from November 2004 through August 2005 in accordance with generally accepted government auditing standards. We obtained and reviewed applicable guidance that prescribes policies and procedures to record and account for real property. Our scope was limited to the review of internal control procedures related to acquisition, additions, and deletions of real property. We conducted no substantive testing. We visited the 3 Military Departments headquarters management offices for real property, 13 field-level commands, 3 real property inventory reporting systems offices, of which one was located within its headquarters office, and the 2 construction agents, of which one is considered the headquarters office. In addition, we coordinated our review with the Government Accountability Office (GAO) and the military audit agencies. Locations visited during the audit are listed in the following table.

<u>Locations Visited</u>		
Army	Navy	Air Force
Assistant Chief of Staff (Installation Management), Arlington, Virginia*	Naval Facility Engineering Command, Washington, DC	Deputy Chief of Staff (Installations and Logistics), Arlington, Virginia
U.S. Army Corps of Engineers, Washington, DC	Kitsap, Washington	Arnold Air Station, Tennessee
Fort Bragg, North Carolina	North Island, California	Gunter Air Force Base, Alabama*
Fort Hood, Texas	Norfolk, Virginia	Hill Air Force Base, Utah
Fort Lewis, Washington	Patuxent River, Maryland	McChord Air Force Base, Washington
Fort Knox, Kentucky	Port Hueneme, California*	
	Whidbey Island, Washington	
	Camp Lejeune, North Carolina	

* Real Property Systems Office

We evaluated procedures for reconciling real property account balances. We analyzed DD Form 1354s, Services’ real property systems inventory records, and other available

supporting documentation to identify FY 2004 and FY 2005 real property transactions. We compared the costs and key dates on the DD Form 1354 with costs and key dates recorded in the real property system.

Use of Computer-Processed Data. To achieve the audit objectives, we used computer-processed data from the systems used to process real property records. We compared real property computer data with supporting documentation. However, we did not perform a formal reliability assessment on the data received from the property record systems. For the Army, we used the Integrated Facilities System. For the Navy we used the internet Navy Facilities Assets Data Store, and we used the Automated Civil Engineers System–Real Property for the Air Force. A synopsis of these systems is in Appendix D.

Government Accountability Office High-Risk Area. The GAO has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area. Managing Federal real property is on the GAO’s 2005 High-Risk list, Government-wide.

Appendix B. Prior Coverage

During the last 5 years, the DoD Inspector General (DoD IG), the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency have issued multiple reports discussing real property. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Army Audit Agency reports are on the Internet at <https://www.aaa.army.mil/reports.htm>. Unrestricted Naval Audit Service reports are on the Internet at <http://www.hq.navy.mil/naudaudit/>. Unrestricted Air Force Audit Agency reports are on the Internet at <https://www.afaa.hq.af.mil>.

DoD IG

DoD IG Report No. D-2001-026, “Accuracy of the Government-Owned Contractor-Occupied Real Property in the Military Departments’ Real Property Databases,” December 22, 2000

DoD IG Report No. D-2000-172, “Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments’ Real Property Databases,” August 11, 2000

Army Audit Agency

Army Audit Agency Report No. A-2004-0006-FFG, “General Fund Followup Issues,” October 29, 2003

Army Audit Agency Report No. A-2002-0376-AMW, “Accounting for Real Property – Rock Island Arsenal,” May 22, 2002

Army Audit Agency Report No. A-2002-0254-FFG, “Army’s General Fund Principal Financial Statements for FY 2001 – Accuracy of Real Property Data reported in the Real Property Systems,” April 22, 2002

Army Audit Agency Report No. AA01-253, “Army’s General Fund Principal Financial Statements for Fiscal Year 2000 – Progress in Correcting Real Property Reporting and Internal control Weaknesses,” May 1, 2001

Army Audit Agency Report No. AA00-275, “Army’s General Fund Principal Financial Statements for Fiscal Year 1999 – Updating Financial Information in Army Real Property Databases,” June 9, 2000

Naval Audit Service

Naval Audit Service Report No. N2000-0038, “Department of the Navy Working Capital Fund Fiscal Year 1999 Real Property,” August 28, 2000

Naval Audit Service Report No. N2000-0033, "Department of the Navy Principal Statements for Fiscal Year 1999: Reporting of Real Property (Buildings, Structures, and Facilities)," July 31, 2000

Naval Audit Service Report No. N2000-0018, "Department of the Navy Principal Statements for Fiscal Year 1999," February 10, 2000

Air Force Audit Agency

Air Force Audit Agency Report No. F2003-0002-FC4000, "Air Force Automated Civil Engineer System – Real Property Controls," October 30, 2002

Air Force Audit Agency Report No. F2002-0008-B05300, "Accounting for Air Force Real Property, Fiscal Year 2001," September 18, 2002

Air Force Audit Agency Report No. 00053006, "Accounting for Air Force Real Property, Fiscal Year 2000," August 31, 2001

Appendix C. Assessment of Implementation of Specific PricewaterhouseCoopers Recommendations

	Compliance		
	Army	Navy	Air Force
Were business rules applied correctly and consistently?	Partial	Yes	No
Does an audit trail exist to support the financial statement amounts and is it maintained?	Partial	Partial	No
Does the baseline require further evaluation because of changes in the business rules? Can the Military Departments support the 1998 baseline?	Yes	Yes	No
Has a detailed real property handbook been developed to ensure that PP&E values are documented in sufficient detail to allow for consistent application across reporting entities?	Yes	Yes	Yes
Have personnel received training to ensure that Office of the Secretary of Defense policies are correctly interpreted and consistently applied?	Partial	Yes	Partial
Has a comprehensive point-of-contact list been developed, widely publicized, and updated periodically?	Partial	Yes	Partial
Did the organizations develop a formal real property accounting and financial management training program?	Partial	Yes	Partial
Are the real property data within the primary Military Department systems reconciled to the working capital fund activities?	Partial	No	Yes
Does an interface exist for systems key to financial reporting?	Partial	Partial	Yes
Do systems properly capture detailed capital improvement information?	Partial	Yes	Yes
Do systems properly calculate depreciation expense and does depreciation calculate on an individual asset component basis prospectively from the point in time that real property system capabilities are in place?	Partial	Yes	Yes
Are key controls associated with the real property asset life cycle identified and tested? Are additional controls defined and implemented where needed?	Partial	Partial	Partial

	Compliance		
	Army	Navy	Air Force
Are the pertinent regulations/policies on installation real property management available in the real property office?	Yes	Yes	Yes
Is a tracking system (voucher register) being used in the real property office to track DD Form 1354s or real estate transactions?	Yes	No	Yes
Were the DD Form 1354s accurately completed by the project engineers and managers submitted to the real property office within 10 working days of project completion?	Partial	No	Partial
Was the DD Form 1354s capitalization data entered into Real Property Inventory within 10 working days?	Partial	No	Partial
Is all building usage properly identified on the DD Form 1354 and recorded in the real property inventory?	Partial	Partial	Partial
Do all facilities (to include land) have a dollar value recorded and supported by appropriate documentation?	Partial	Partial	Partial
Did the real property accountable officer verify line-by-line that the DD Form 1354 data had been accurately entered into the real property inventory?	Partial	No	Partial
Were disposed facilities removed from the real property inventory within 10 working days after disposal completion (disposal completion date, date dropped from the inventory, and reportability code of "D")?	Partial	Partial	Partial
Do land records have separate facility numbers from buildings, structures, and utilities?	Yes	Yes	Yes
Were annual reconciliations with tenant activities performed to review facilities occupied by tenant, facility usage, capital improvement costs that may have been done by the tenant activity, unit identification codes, and real property management responsibility?	Partial	Partial	Partial
Has every facility in the real property inventory been verified for accuracy by a physical survey?	Partial	Partial	Partial

Appendix D. Synopsis of Real Property Systems

Integrated Facilities System Synopsis

The Army collects and manages its real property through the use of three main feeder systems. The three feeder systems are the Integrated Facilities System (IFS), the Planning Resource for Infrastructure Development and Evaluation System, and the Rental Facilities Management Information System. IFS is the system in which the Army installations input real property data. Because the Army deployed IFS prior to the implementation of the DoD Information Technology Security Certification and Accreditation Process, the system is considered a legacy system. Real property data is currently being submitted by 130 Army and National Guard installations through a file transfer protocol. The database resides in various Army installations across the country and overseas, but the Army is moving towards consolidating the servers located in the U.S. at Fort Lee, Virginia. The Army classifies the IFS information coming from the bases as either Non-Working Capital Fund or Working Capital Fund. This classification determines the way in which the data flows from the installations up to Army Headquarters. According to Army assertions, IFS does not comply with the Defense Finance and Accounting Service (DFAS) Blue Book or the Federal Financial Management Improvement Act of 1996. The Army is in the process of issuing an upgrade package to IFS called System Change Package–Number 16. Army personnel anticipate that by end of FY 2005 the upgrade package will make IFS compliant with the Chief Financial Officers Act of 1990. As part of this process, the Army Audit Agency is auditing IFS for Federal Financial Management Improvement Act of 1996 compliance. The results of this audit will be available at the earliest by the fourth quarter of FY 2005. See Figure D-1 for systems flowchart.

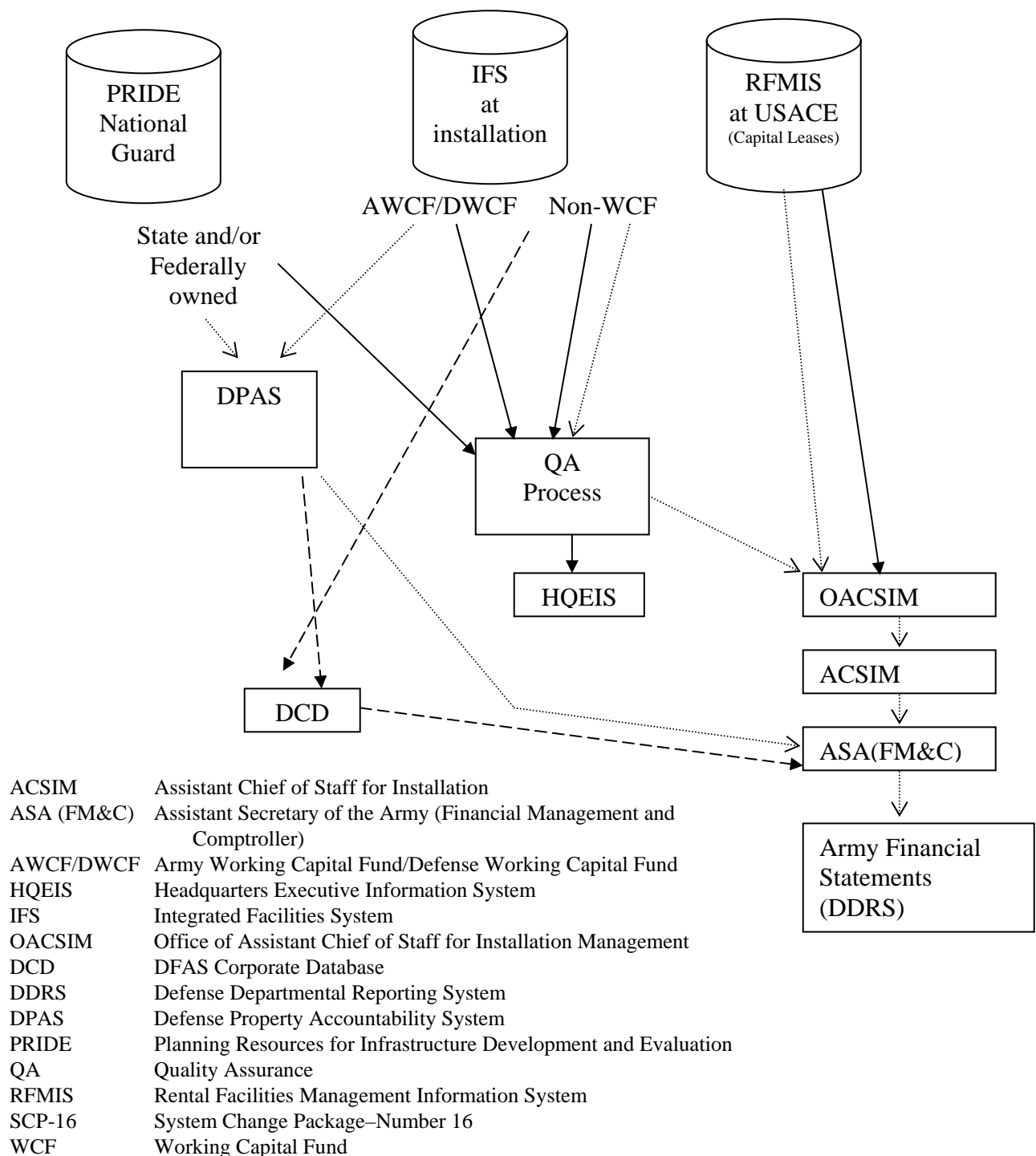


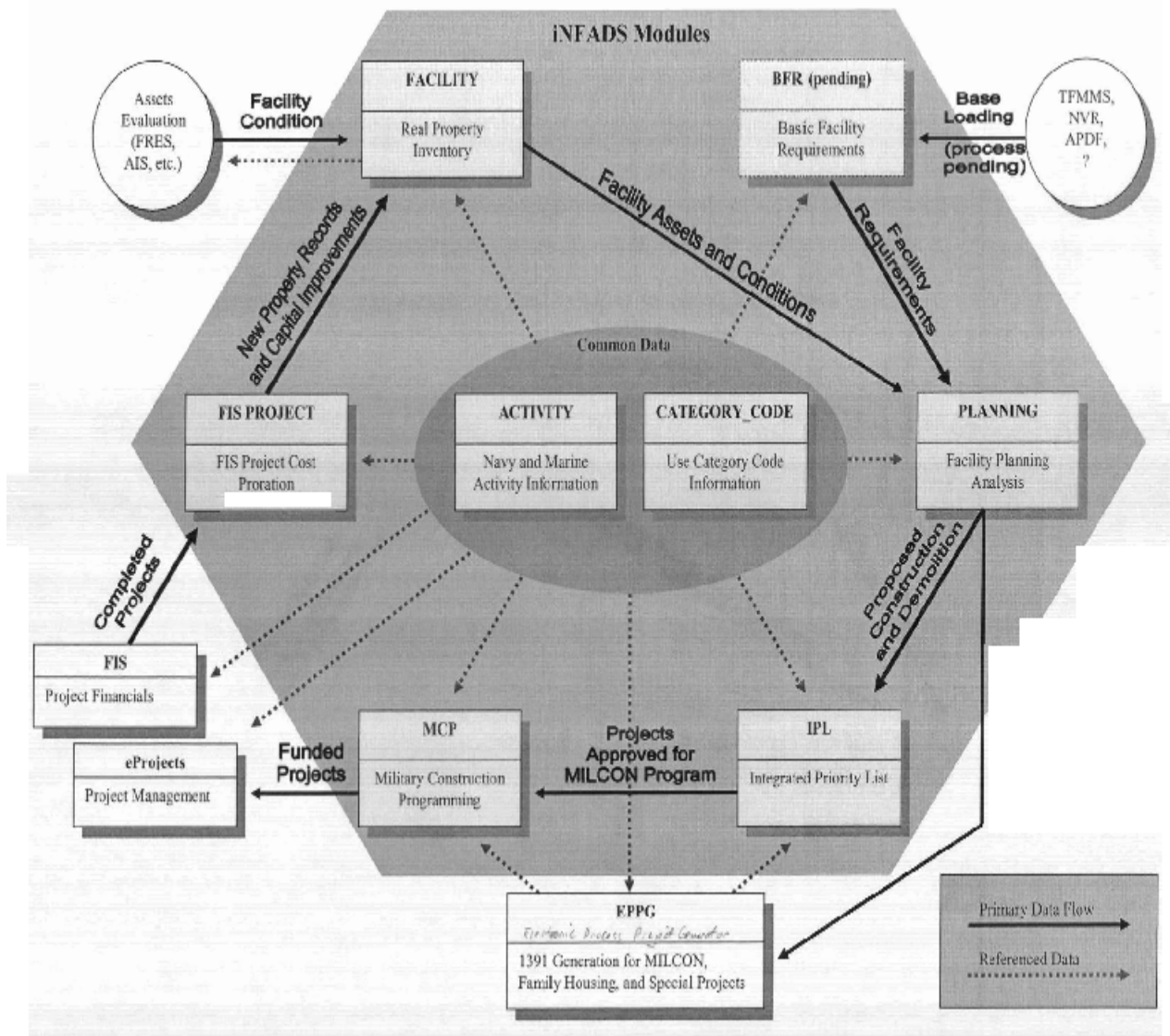
Figure D-1. Flow of Army Real Property

Internet Navy Facility Assets Data Store Synopsis

The Department of the Navy (including Marine Corps) maintains its real property inventory records in an Oracle-based, Web-served iNFADS. The records were migrated from the Navy Facility Assets Data Base in March 2001. Generally, the Engineering Field Divisions and activities enter changes directly into the iNFADS. If an activity does not have access to iNFADS, it can transmit the information to its Engineering Field Divisions for entry into iNFADS. The systems provide complete assets management and consist of 10 major components (Facility Assets, Activity, Category Code Directory, Shore Facilities Planning System, Military Construction Program, Facilities Information System Project, Security, Administration, Data Dictionary, and Integrated Priority List). The iNFADS system interfaces with the Navy Shore Installations Web site and mainframe applications such as the Facilities Information System.

The upper right oval in figure D-2 denotes that interfaces with iNFADS of the Total Force Manpower Management System, the Naval Vessel Register, and the Aircraft Program Data File are currently under consideration.

Shore Facilities Planning, Facility Acquisition, and Real Property Inventory Data Flows

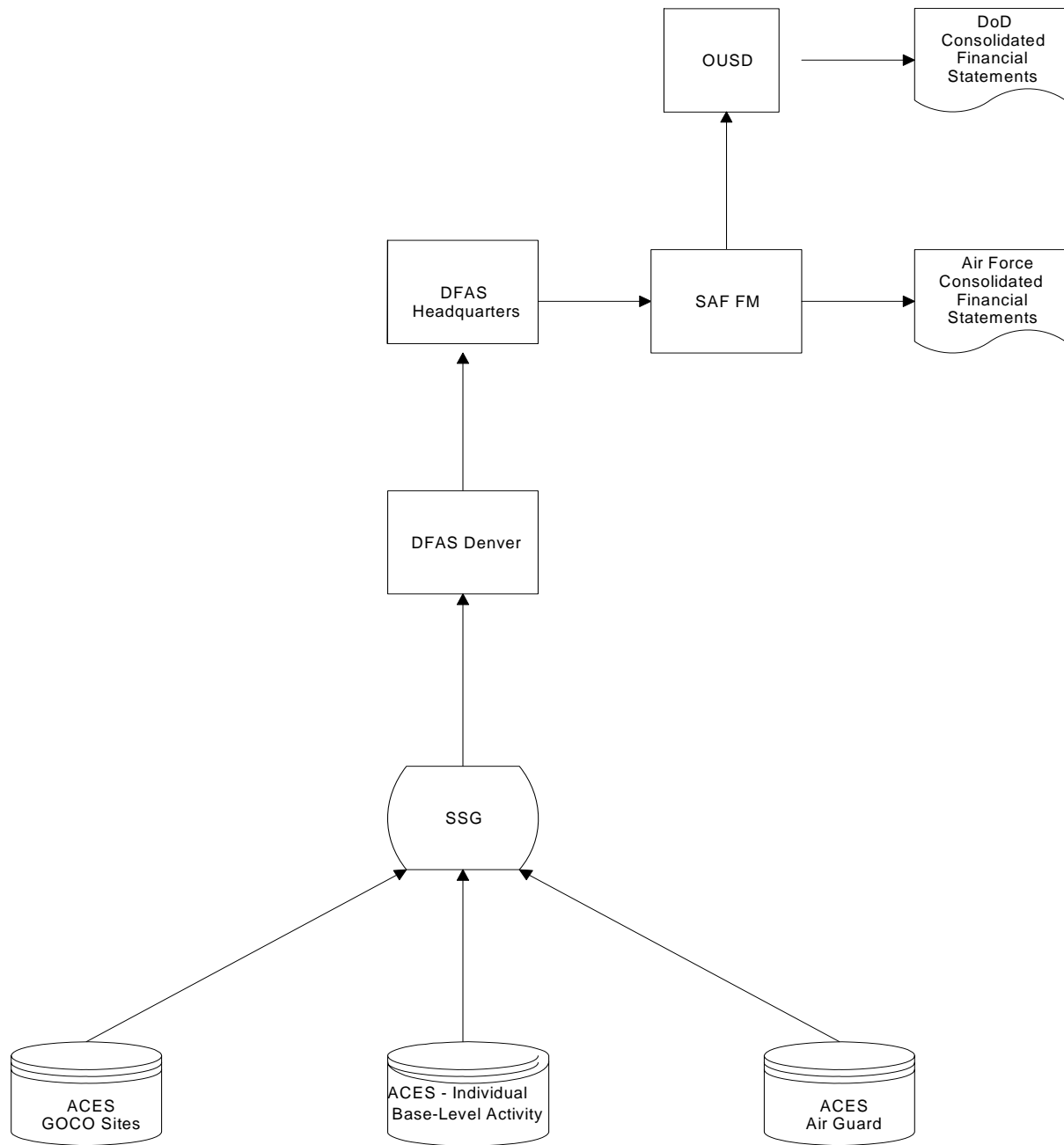


AIS	Annual Inspection Summary
APDF	Aircraft Program Data File
BFR	Basic Facility Requirements
FIS	Facilities Information System
EPPG	Electronic Process Project Generator
FRES	Facility Readiness Evaluation System
IPL	Integrated Priority List
MCP	Military Construction Programming
MILCON	Military Construction
NVR	Naval Vessel Register
TFMMS	Total Force Manpower Management System

Figure D-2. Flow of Navy Real Property

Automated Civil Engineer System – Real Property (ACES-RP) Synopsis

As a result of the Chief Financial Officers Act of 1990, the Air Force developed ACES-RP to be the original book of entry for all real property financial data. The development of the real property module would make ACES-RP the bridge between real property and the financial management world. The data in ACES-RP are used to produce the financial statements for general and working capital fund activities. ACES-RP is a Web-based system that can separately capture real property assets, and their associated capital improvements, and depreciates each component of an asset over its appropriate useful life. The system directly involved with interface between ACES-RP and the Defense Finance and Accounting Service in Denver for transfer of data is the GAFS-R. DFAS Denver is in charge of management, operations, and maintenance of GAFS-R. GAFS-R interfaces with Defense Departmental Reporting System – Audited Financial System (DDRS-AFS). DDRS-AFS is a DFAS system that generates the financial reports. The complete process from ACES-RP individual base-level activity to how system data rolls up in the Air Force Financial Statements and DoD Consolidated Financial Statements is shown in figure D-3.



GOCO	Government-Owned, Contractor-Operated
OUSD	Office of the Under Secretary of Defense
SAF FM	Secretary of the Air Force (Financial Management)
SSG	Standards Systems Group

Figure D-3. Flow of Air Force Real Property

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Installations and Environment)
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE


SUBJECT: Report Entitled "Draft Report Internal Controls Related to Department of
Defense Real Property" (DoD OIG Project No. D2005FH-D000FP-0069,
November 8, 2005)

This is in response to the subject draft report of November 8, 2005, provided to
this office for review and comment. We appreciate the opportunity to review the draft
and provide comments.

We agree with the intent of recommendation (A.2) about issuing policy to retain
documentation for real property in accordance with National Archives and Records
Administration (NARA) rules and to clarify policy about who should retain documents to
support the amounts reported on the DD Form 1354, "Transfer and Acceptance of
Military Real Property."

Presently, the Financial Management Regulation (FMR) requires real property
documentation be retained as required by NARA; however, most of the real property
business process is located within the installations and logistics community, which has its
own set of rules. We will work with the installation and logistics community to develop
an approach to incorporate the NARA requirement into its policy guidance and to
develop rules about who should retain the documentation to support the DD Form 1354,
"Transfer and Acceptance of Military Real Property."

My point of contact for this matter is Mr. Ron Tollefson. He may be reached by e-
mail at ron.tollefson@osd.mil or by telephone at (703) 607-0300, Ext. 125.


for Teresa McKay
Deputy Chief Financial Officer

The Assistant Secretary of the Navy (Financial Management and Comptroller) Comments



THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

9 January 2006

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: DoDIG Draft Audit Report "Internal Controls Related to Department of Defense
Real Property" Project No. D2005-D00FH-0069.000 of 8 November 2005

Reference: (a) DoDIG memo of 8 Nov 05

Enclosure: (1) Department of the Navy Comments

By reference (a), you requested that we review and comment on subject audit. Enclosure
(1) provides the Department of the Navy's response.

My point of contact for this action is Mr. Warren Pfeiffer, (202) 685-6730 or e-mail at
warren.pfeiffer@navy.mil.

A handwritten signature in black ink, appearing to read "Ashley D. Godwin", is positioned above the printed name.

Ashley D. Godwin
Deputy Assistant Secretary of the Navy

Copy to:
COMNAVFACENGCOM

DEPARTMENT OF THE NAVY
RESPONSE TO DODIG DRAFT AUDIT REPORT
"Internal Controls Related to
Department of Defense Real Property"
(PROJECT NO. D2005-D000FH-0069.000)

Recommendation A.3. We recommend that the Commander of the U.S. Army Corps of Engineers; the Commander Naval Facilities Engineering Command; the Assistant Chief of Staff for Installation Management, U.S. Army; and the Deputy Chief of Staff, installations and logistics, U.S. Air Force:

a. Provide oversight to resident engineers on Military installations so that the resident engineers will provide timely interim and final DD Forms 1354 that are accurate and with cost sufficiently broken out to enable the real property office personnel to properly value assets.

NAVFAC Comment. Concur. NAVFAC staff issued guidance for the use and preparation of the DD Form 1354, "Transfer and Acceptance of Military Real Property" in August 2005. The guidance clarifies the roles and responsibilities for completing the "draft", "interim", and "final" form. This guidance will ensure that the completed construction costs are properly accounted for as they are transferred to clients so that the Real Property Accountable Officer has the required information to enter into the Internet Navy Facilities Asset Data Store (INFADS). During Fiscal Year (FY) 2006, NAVFAC staff will monitor the implementation and use of the DD Form 1354 to ensure that it is properly implemented. Implementation of the DD Form 1354 is included in the Department of the Navy Financial Improvement Plan (DON FIP). Completion of this milestone is 30 June 2006.

b. Provide oversight to resident engineers on Military installations so that the Real Property Accountable Officer or his or her agent is included in the inspection and acceptance at beneficial occupancy date.

NAVFAC Comment. Concur. If the guidance for the use and preparation of the DD Form 1354 is properly implemented, the Real Property Accountable Officer should be included in the inspection and acceptance at the beneficial occupancy date. Important to ensuring that this happens will be NAVFAC staff monitoring during FY 2006 to ensure that the DD Form 1354 guidance is being properly implemented. If needed,

Enclosure (1)

modifications to the DD Form 1354 guidance will be made to ensure that roles and responsibilities are clearly delineated.

c. Provide a defined timeline and procedure for engineering personnel to notify comptroller and real property personnel that beneficial occupancy has occurred and will result in construction-in-progress (CIP) assets being reduced simultaneously when real property assets are increased; or develop automated procedures that will result in simultaneous posting.

NAVFAC Comment. Concur. The interim guidance for use and preparation of DD Form 1354 should ensure that the Real Property Accountable Officer would be notified of the beneficial occupancy date. NAVFAC staff established an automated procedure that when 95% of the construction project is completed, the Property Accountable Officer is provided an e-mail to that effect. Review of the construction-in-progress is included in the DON FIP and is currently in the discovery phase of that milestone of the FIP. The review of the CIP process is to be completed by 30 June 2006.

d. Ensure that the real property personnel perform inventories as required.

NAVFAC Comment. Concur. As part of the real property portion of the DON FIP, there is a milestone to develop an approach to performing and documenting real property inventories that meet the requirement of the Department of Defense Real Property Inventory and Reporting. The milestone is to be completed by 29 March 2007.

Recommendation A.4: We recommend that the Assistant Secretaries of Army, Navy, and Air Force (Financial Management and Comptroller) report the material weaknesses identified in finding A of this report in their annual statement of assurance until the weaknesses are corrected.

ASN (FM&C) Comments: Concur. We will evaluate real property controls as we develop this year's Departmental Statement of Assurance in accordance with OMB Circular A-123. During this process we will evaluate existing controls for adequacy and make the determination whether they should be included as material weaknesses.

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Paul J. Granetto
Patricia A. Marsh
Barbara A. Sauls
Delpha W. Martin
C. Kirk Winstead
Ronald L. Smith
Peter I. Lee
Lily Y. Chen
Wilfredo Romero-Torres
Calvin G. Hursey
Damarus M. Sanders
Catherine Bird
Erin S. Hart
Ann Thompson
Jillisa H. Milner